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Statement by the EC, ECB and IMF on the Eleventh Review Mission to Ireland

Staff teams from the European Commission (EC), European Central Bank (ECB), and the International Monetary Fund (IMF) visited Dublin during July 9-18, 2013 for the eleventh review of the government's economic program. Ireland's program remains on track and yields on sovereign bonds are well below their levels in recent years. Discussions with the authorities focused on how best to address the remaining challenges, especially the fiscal deficit, unemployment, and banks' nonperforming loans.

Recent national accounts data show weaker economic activity than previously estimated. At the same time, high frequency indicators have been more positive and the labor market shows signs of improvement. While unemployment remains high, it has now dropped to a three year low. Overall, modest positive growth is expected this year as the external environment improves and the domestic economy stabilizes.

A number of developments, including European decisions to extend loan maturities, have further reduced market financing needs in coming years. This, together with confidence in the Irish authorities' commitment to program reforms, has supported improved funding conditions for both the Irish sovereign and the banks. Yet, such gains are fragile and need to be safeguarded by steadfast program execution.

Budget implementation is on track in the first half of the year. The new local property tax contributes to broadening Ireland's tax base. Broad acceptance of the agreement on public sector pay is welcome as it will facilitate needed pay bill savings while protecting core public services. Nonetheless, it will be important to maintain careful and proactive budget management to contain spending within allocations for the remainder of the year and to ensure the annual fiscal targets are again met. Further progress towards sustainable public finances is necessary to sustain improved funding conditions. Budget 2014 should bring the high debt and deficit down in line with Ireland's commitments and continue Ireland's track record of steady fiscal consolidation efforts. The mission urged the authorities to develop further structural reforms to enable continued consolidation to be achieved in a durable and growth-friendly manner, while protecting the most vulnerable.

To revive lending and support economic recovery financial sector repairs must progress. The immediate priority is to address banks’ high levels of impaired loans. Recent legislative and regulatory steps have strengthened the framework for resolving mortgages in arrears. Banks are now expected to accelerate durable solutions for borrowers in unsustainable positions, while restoring debt service payments in other arrears cases. Working out SMEs in arrears is also important given the critical role this sector can play in job creation. The mission welcomed the recent enactment of legislation that strengthens the supervisory powers of the central bank, while urging to bring the centralized credit register into operation as soon as possible. Good progress was made on specifying the supervisory diagnostic steps that should be undertaken to assess the quality of banks' balance sheets.

Reducing unemployment remains a key challenge. The Pathways to Work initiative moves in the right direction, but significantly more resources are needed to ensure meaningful engagement with job-seekers, especially the long-term unemployed. Thus, the mission urged timely redeployment of staff with suitable skills and training, supported by private sector provision of employment services. It remains essential to further enhance competition in sheltered sectors of the economy.

The key objectives of Ireland’s EU-IMF supported program are to address financial sector weaknesses and put Ireland’s economy on the path of sustainable growth, sound public finances and job creation, while protecting the poor and most vulnerable. The program includes loans from the European Union and EU member states amounting to €45 billion and a €22.5 billion Extended Fund Facility with the IMF. Conclusion of this review, which is subject to the approval process of both the EU and the IMF, would make available disbursements of €2.3 billion by the EFSF, €0.8 billion by the IMF, and €0.3 billion by bilateral creditors. This would bring authorized disbursements to 97.9% of the total international assistance envisaged under the program. The next review mission is scheduled for October 2013.